

CITY OF PAULLINA, IOWA
Paullina, Iowa

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION AND
SCHEDULE OF FINDINGS AND RESPONSES

For the Year Ended
June 30, 2010

**CITY OF PAULLINA, IOWA
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CITY OF PAULLINA, IOWA

OFFICIALS

(Before January, 2010)

Name	Title	Term Expires
Marlo Ebel	Mayor	January, 2012
Marty Weber	Mayor Pro-Tem	January, 2014
Justin Stamer	Council Member	January, 2012
John Ihle	Council Member	January, 2012
Mike Otto	Council Member	January, 2012
John Muller	Council Member	January, 2014
Sandy Fritz	City Clerk/Administrator	January, 2011
Johnene Altman	Treasurer	January, 2011
Tisha Halverson	Attorney	January, 2011

(After January, 2010)

Name	Title	Term Expires
Marlo Ebel	Mayor	January, 2010
Martin Weber	Mayor Pro-Tem	January, 2010
Justin Stamer	Council Member	January, 2012
John Ihle	Council Member	January, 2012
Mike Otto	Council Member	January, 2012
John Muller	Council Member	January, 2010
Sandy Fritz	City Clerk/Administrator	January, 2010
Johnene Altman	Treasurer	January, 2010
Tisha Halverson	Attorney	January, 2010



21 1st Avenue NW
P.O. Box 1010
Le Mars, IA 51031
Phone (712) 546-7801
Fax (712) 546-6543

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Members of the City Council
City of Paullina, Iowa

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Paullina, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Paullina, Iowa's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Paullina, Iowa, as of June 30, 2010, and the respective changes in financial position, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 23, 2010, on our consideration of the City of Paullina, Iowa's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 8 and 21 through 22 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Paullina, Iowa's financial statements as a whole. The combining nonmajor fund financial statements and the schedule of receipts by source and disbursements by function, are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and nonmajor fund financial

statements and the schedule of receipts by source and disbursements by function are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Williams & Company, P.C.
Certified Public Accountants

Le Mars, Iowa
November 23, 2010

CITY OF PAULLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2010

The City of Paullina provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2010. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2010 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities decreased 4.90%, or approximately \$28,572 from fiscal year 2009 to fiscal 2010. Property tax decreased approximately \$42,747 from fiscal year 2009 to fiscal year 2010. Sales tax receipts decreased by \$49,326 from fiscal year 2009 to fiscal year 2010. Intergovernmental receipts increased by \$116,321 from fiscal year 2009 to fiscal year 2010.
- Disbursements of the City's governmental activities increased 19.73%, or approximately \$167,224 in fiscal 2010 from fiscal 2009. Public works and capital projects disbursements increased approximately \$168,459 and \$63,647 while public safety disbursements decreased by approximately \$65,681.
- The City's total cash basis net assets increased 1.65% or approximately \$41,361 from June 30, 2009 to June 30, 2010. Of this amount, the assets of the governmental activities decreased by \$196,288 and the assets of the business type activities increased by \$237,649.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds and the City's indebtedness. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefitting the City.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government –wide Financial Statements

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets – Cash Basis reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets presents is divided into two kinds of activities:

- Government Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks, the sanitary sewer system and the electric system. These activities are financed primarily by user charges

Fund Financial Statements

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, and 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a statement of cash receipts, disbursements and changes in cash balances.

- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The city maintains four Enterprise Funds to provide separate information for the Water Fund, Electric Fund, Sewer Fund and Telecom Fund, considered to be major funds of the City.

The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

Reconciliations between the government-wide statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, from \$959,465 to \$763,177. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities		
	Year Ended June 30,	
	2010	2009
Receipts and Transfers		
Program Receipts:		
Charges for Services	\$ 174,364	\$ 166,082
Operating Grants & Contributions	226,719	116,983
General Receipts		
Property Taxes	183,904	226,651
Tax Increment Financing Collections	19,298	20,811
Local Option Sales Tax	78,061	127,387
Interest	5,049	10,697
Other General Receipts	36,284	92,640
Sale of Capital Assets	9,000	835
Total Receipts	732,679	762,086
Disbursements:		
Public Safety	223,141	288,822
Public Works	425,123	256,664
Health and Social Services	8,570	4,150
Culture and Recreation	84,601	84,288
Community and Economic Development	113	1,993
General Government.....	66,382	63,631
Debt Service.....	135,345	140,150
Capital Projects	71,458	7,811
Total Disbursements	1,014,733	847,509
(Decrease) in Cash Basis Net Assets – Before Transfers	(282,054)	(85,423)
Net Transfers	85,766	24,716
Cash Basis Net Assets – Beginning of Year	959,465	1,020,172
Cash Basis Net Assets – End of Year	\$ 763,177	\$ 959,465

The City's total receipts for governmental activities increased 4%, or approximately \$31,643. A significant decrease in the Local Option Sales Tax and Property Tax receipts was offset by increases in Charges for Services, Operating Grants and Contributions and net transfers in.

The City decreased property tax rates for fiscal year 2010 an average of 18%. The Council continues to try to attain a lower tax rate due to several increases in the utility rates.

The cost of all governmental activities increased this year by 19.7%, to \$1,014,733 compared to \$847,509 last year. The increase in expense is due to an increase in snow removal costs for the 2009-2010 winters and the City also had to pay the City's share of the paving of the North Mickey Street improvement project.

Changes in Cash Basis Net Assets of Business Type Activities

	Year Ended June 30,	
	2010	2009
Receipts:		
Operating Receipts:		
Water	\$ 163,513	\$ 165,654
Electric	1,071,122	1,019,863
Sewer	151,307	158,655
Telecom	203,592	129,104
Interest	24,123	27,311
Proceeds from Debt	---	97,009
Intergovernmental Revenue	---	66,264
Total	<u>1,613,657</u>	<u>1,663,860</u>
Disbursements:		
Operating Disbursements:		
Water	168,291	186,483
Electric	852,747	762,902
Sewer	184,569	357,195
Telecom	84,635	86,395
Total	<u>1,290,242</u>	<u>1,392,975</u>
Net Change in Cash Balance – Before Transfers	323,415	270,885
Net Transfers Out	(85,766)	(24,716)
Cash Basis Net Assets – Beginning of Year	<u>1,549,656</u>	<u>1,303,487</u>
Cash Basis Net Assets – End of Year	<u>\$ 1,787,305</u>	<u>\$ 1,549,656</u>

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Paullina completed the year, its governmental funds reported a combined fund balance of \$763,177, a decrease of \$196,288 over last year's total of \$959,465. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- In the General Fund the Property Taxes decreased by approximately 18% in an effort to lower property taxes due to an increase in utility rates and due to economic factors, the amount of interest income collected decreased by 53%
- Total receipts in the Local Option Sales Tax fund decreased by 38.7% due to lower taxable sales in the area.
- The Road Use Tax Fund had an increase in expenses due the large amount of snow removal cost and payments made for the City's share of N. Mickley Street construction project.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance decreased by \$14,473 to \$334,617 due to flooding and purchase of additional pumps to handle the excess water.
- The Electric Fund cash balance increased by \$150,443 to \$925,873 due to an increase in electric rates and the addition of a power cost adjustment.
- The Sewer Fund cash balance decreased by \$22,067 to \$41,232 due to flooding and excess rains in the Spring of 2010.
- The Telecom Fund cash balance increased by \$123,746 to \$485,583 in part due to a larger retained earnings payment received from TCA.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. This amendment was approved on May 17, 2010 and resulted in an increase in budgeted receipts of \$202,596 and an increase in budgeted disbursements of \$250,196. The City had sufficient cash balances to absorb these additional costs.

DEBT ADMINISTRATION

A comparison of the City's debt at June 30, 2010 to June 30, 2009 follows:

	Year Ended June 30,	
	2010	2009
G.O. Bonds and Notes.....	\$ 425,000	\$ 525,000
Special Assessment Notes	20,000	30,000
Sewer Loan Notes	477,000	498,000
Electric Revenue Notes	585,000	665,000
Telecommunication		
Revenue Notes.....	630,000	685,000
Total	<u>\$ 2,137,000</u>	<u>\$ 2,403,000</u>

ECONOMIC FACTORS

The City continues to establish its police department and has a high turnover in employees.

The weather was a major factor in contributing to additional expenses due to excessive snow in the winter and we had excessive sewer back up due to heavy rains in June. The City purchased additional pumps and continues to mitigate the problem.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, contact Sandy Fritz, City Clerk, 127 S. Main St. Paullina, Iowa 51046, (712) 949-3428.

BASIC FINANCIAL STATEMENTS

CITY OF PAULLINA, IOWA
STATEMENT OF ACTIVITIES and NET ASSETS - Cash Basis
For the Year Ended June 30, 2010

Functions/Programs	Disbursements	Program Receipts		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
Public Safety	\$ 223,141	\$ 28,414	\$ 4,500	\$ -
Public Works	425,123	139,685	104,272	-
Health and Social Services	8,570	-	-	-
Culture and Recreation	84,601	3,350	5,850	-
Community and Economic Development	113	-	-	-
General Government	66,382	2,915	112,097	-
Capital Outlay	71,458	-	-	-
Debt Service	135,345	-	-	-
Total governmental activities	<u>1,014,733</u>	<u>174,364</u>	<u>226,719</u>	<u>-</u>
Business-Type Activities:				
Water Utility	168,291	163,513	-	-
Sewer Utility	184,569	151,307	-	-
Electric Utility	852,747	1,071,122	-	-
Telecom	84,635	203,592	-	-
Total Business-Type Activities:	<u>1,290,242</u>	<u>1,589,534</u>	<u>-</u>	<u>-</u>
Total Primary Government	<u>\$ 2,304,975</u>	<u>\$ 1,763,898</u>	<u>\$ 226,719</u>	<u>\$ -</u>

General Receipts:
Property taxes
Tax Increment Financing
Local Option Sales Tax
Interest
Sale of Assets
Miscellaneous
Interfund Transfers
Total general revenues and transfers
Change in net assets
Cash Basis Net assets - beginning
Cash Basis Net assets - ending

Cash Basis Net Assets
Restricted:
Debt Service
Unrestricted
Total Cash Basis Net Assets

Exhibit A

Net (Disbursements) Receipts and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
\$ (190,227)		\$ (190,227)
(181,166)		(181,166)
(8,570)		(8,570)
(75,401)		(75,401)
(113)		(113)
48,630		48,630
(71,458)		(71,458)
(135,345)		(135,345)
<u>(613,650)</u>		<u>(613,650)</u>
	\$ (4,778)	(4,778)
	(33,262)	(33,262)
	218,375	218,375
	118,957	118,957
	<u>299,292</u>	<u>299,292</u>
<u>(613,650)</u>	<u>299,292</u>	<u>(314,358)</u>
183,904	-	183,904
19,298	-	19,298
78,061	-	78,061
5,049	24,123	29,172
9,000	-	9,000
36,284	-	36,284
85,766	(85,766)	-
<u>417,362</u>	<u>(61,643)</u>	<u>355,719</u>
(196,288)	237,649	41,361
959,465	1,549,656	2,509,121
<u>\$ 763,177</u>	<u>\$ 1,787,305</u>	<u>\$ 2,550,482</u>
\$ 266,312	\$ 234,851	\$ 501,163
496,865	1,552,454	2,049,319
<u>\$ 763,177</u>	<u>\$ 1,787,305</u>	<u>\$ 2,550,482</u>

CITY OF PAULLINA, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
Governmental Funds
For the Year Ended June 30, 2010

	Special Revenue			
	General	Road Use Tax	Urban Renewal Tax Increment	Business Park
Receipts:				
Taxes	\$ 178,441	\$ -	\$ -	\$ -
Special Assessments	-	-	-	-
Licenses and Permits	2,915	-	-	-
Intergovernmental	118,432	104,272	-	-
Charges for Services	104,812	-	-	-
Contributions	4,015	-	-	-
TIF Revenue	-	-	19,298	-
Local Option Sales Tax	-	-	-	-
Rental of City Property	46,494	-	-	-
Interest on Investments	1,470	-	149	1,045
Miscellaneous	36,284	-	-	-
Total Receipts	492,863	104,272	19,447	1,045
Disbursements:				
Public Safety	185,227	-	-	-
Public Works	267,347	157,623	-	-
Health and Social Services	8,570	-	-	-
Culture and Recreation	80,534	-	-	-
Community and Economic Development	113	-	-	-
General Government	65,249	-	-	-
Capital Outlay	-	-	-	175
Debt Service:				
Principal Retirement	-	-	-	-
Interest	-	-	-	-
Total Disbursements	607,040	157,623	-	175
Excess (Deficiency) of Receipts to Disbursements	(114,177)	(53,351)	19,447	870
Other financing sources (uses):				
Sale of Assets	9,000	-	-	-
Transfers In	98,609	-	-	-
Transfers Out	-	(29,717)	(18,700)	-
Total other financing sources	107,609	(29,717)	(18,700)	-
Net Change in Cash Balances	(6,568)	(83,068)	747	870
Cash Balances Beginning of Year	197,420	156,713	16,306	193,855
Cash Balances End of Year	\$ 190,852	\$ 73,645	\$ 17,053	\$ 194,725

Exhibit B

Debt Service	Other Nonmajor Governmental Funds	Total Governmental Funds
	\$ 5,463	\$ 183,904
1,094	19,049	20,143
-	-	2,915
-	-	222,704
-	-	104,812
-	-	4,015
-	-	19,298
-	78,061	78,061
-	-	46,494
2,254	131	5,049
-	-	36,284
3,348	102,704	723,679
-	37,914	223,141
-	153	425,123
-	-	8,570
-	4,067	84,601
-	-	113
-	1,133	66,382
-	71,283	71,458
110,000	-	110,000
25,345	-	25,345
135,345	114,550	1,014,733
(131,997)	(11,846)	(291,054)
-	-	9,000
49,144	98,967	246,720
(29,439)	(83,098)	(160,954)
19,705	15,869	94,766
(112,292)	4,023	(196,288)
378,604	16,567	959,465
\$ 266,312	\$ 20,590	\$ 763,177

CITY OF PAULLINA, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BALANCES
Proprietary Funds
For the Year Ended June 30, 2010

	Water Utility
Operating Receipts:	
Charges for Services	\$ 163,513
Total Operating Receipts	<u>163,513</u>
Operating Disbursements:	
Purchased Power	-
Employee Services	90,135
Distribution / Collection	13,820
Supplies	38,308
Repairs	2,134
Capital Outlay	-
Administrative and General	23,894
Total Operating Disbursements	<u>168,291</u>
Excess (Deficiency) of Receipts Over Disbursements	(4,778)
Non-Operating Receipts (Disbursements):	
Interest Income	6,305
Interest Expense	-
Principal Payments	-
Total Non-Operating Receipts (Disbursements)	<u>6,305</u>
Excess (Deficiency) of Receipts Over Disbursements	1,527
Transfers In	-
Transfers Out	<u>(16,000)</u>
Change in Cash Balances	(14,473)
Cash Basis Net Assets Beginning of Year	<u>349,090</u>
Cash Basis Net Assets End of Year	<u>\$ 334,617</u>
Cash Basis Net Assets	
Reserved for Debt Service	\$ -
Unreserved	334,617
Total Cash Basis Net Assets	<u>\$ 334,617</u>

Exhibit C

Business Type Activities			
Electric Utility	Sewer Utility	Telecom	Total
\$ 1,071,122	\$ 151,307	\$ 203,592	\$ 1,589,534
<u>1,071,122</u>	<u>151,307</u>	<u>203,592</u>	<u>1,589,534</u>
434,313	-		434,313
185,538	99,592		375,265
7,593	26,330		47,743
35,637	4,770		78,715
5,520	5,150		12,804
3,595	3,792		7,387
64,156	7,750		95,800
<u>736,352</u>	<u>147,384</u>	<u>-</u>	<u>1,052,027</u>
334,770	3,923	203,592	537,507
12,634	395	4,789	24,123
(36,395)	(16,185)	(29,635)	(82,215)
<u>(80,000)</u>	<u>(21,000)</u>	<u>(55,000)</u>	<u>(156,000)</u>
<u>(103,761)</u>	<u>(36,790)</u>	<u>(79,846)</u>	<u>(214,092)</u>
231,009	(32,867)	123,746	323,415
	11,800	-	11,800
<u>(80,566)</u>	<u>(1,000)</u>	<u>-</u>	<u>(97,566)</u>
150,443	(22,067)	123,746	237,649
<u>775,430</u>	<u>63,299</u>	<u>361,837</u>	<u>1,549,656</u>
\$ <u>925,873</u>	\$ <u>41,232</u>	\$ <u>485,583</u>	\$ <u>1,787,305</u>
\$ 150,851	\$ -	\$ 84,000	\$ 234,851
<u>775,022</u>	<u>41,232</u>	<u>401,583</u>	<u>1,552,454</u>
\$ <u>925,873</u>	\$ <u>41,232</u>	\$ <u>485,583</u>	\$ <u>1,787,305</u>

CITY OF PAULLINA, IOWA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010

Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Paullina is a political subdivision of the State of Iowa located in O'Brien County. It was first incorporated in 1883 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture, recreation, public improvements and general administrative services. The City also provides water, sewer, electrical, and cable TV, telephone and internet utilities for its citizens.

A. Reporting Entity

For Financial reporting purposes, the City of Paullina has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City. The City of Paullina has no component units.

Jointly Governed Organizations

The City also participates in several jointly governed organizations for which the City is not financially accountable or that the nature and significance of the relationship with the City are such that exclusion does not cause the City's financial statements to be misleading or incomplete. City officials are members of the following boards and commissions: County Emergency Management Commission, County Landfill Board, and County Economic Development Board.

B. Basis of Presentation

Government-wide Financial Statements – The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. The effect of interfund activity has been removed from these statements. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

CITY OF PAULLINA, IOWA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010

Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and (2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Urban Renewal Tax Increment Fund is used to account for urban renewal projects financed by tax increment financing.

The Business Park Fund is utilized to account for the development of the City's new business park area.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Electric Fund accounts for the operation and maintenance of the City's electric system.

The Telecom Fund accounts for the operations of the telecom system.

CITY OF PAULLINA, IOWA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010

Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting

The City of Paullina maintains its financial records on the basis of cash receipts and disbursements which is an other comprehensive basis of accounting and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and other accrued items as well as fixed assets. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

Note 2 – CASH AND POOLED INVESTMENTS

The City's deposits at June 30, 2010 were entirely covered by Federal depository insurance, or by the state sinking fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high-rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments at June 30 2010; however the City's time deposits were as follows:

Certificates of Deposit	<u>\$646,452</u>
-------------------------	------------------

Interest Rate Risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

CITY OF PAULLINA, IOWA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 3 – BONDS AND NOTES PAYABLE

The City's computed legal debt limit as of June 30, 2010, is \$1,715,884 of which \$445,000 is committed for outstanding general obligation debt.

The following is a summary of bond transactions of the City for the year ended June 30, 2010:

	Governmental Activities	Business-Type Activities
	Bonds and Notes Payable by Debt Service Fund	Bonds and Notes Paid by Enterprise Funds
Primary Government		
Bonds and notes payable July 1, 2009	\$ 555,000	\$ 1,848,000
Plus: bonds and notes issued	-	-
Less: payments	(110,000)	(156,000)
Bonds and notes payable June 30, 2010	\$ 445,000	\$ 1,692,000
Due within one year	\$ 75,000	\$ 167,000

The City of Paullina had the following outstanding bonds as of June 30, 2010:

Bond	Date of Issue	Interest Rate	Final Due Date	Annual Payments	Amount Originally Issued	Outstanding June 30, 2010
General Obligation	06/01/02	3.60 – 5.20%	2013	\$10,000 - \$15,000	\$ 135,000	\$ 45,000
Business Park	09/14/06	3.80 – 4.25%	2017	\$45,000 - \$60,000	515,000	380,000
S.A. Capital Loan	06/20/02	3.75% - 5.60%	2011	\$ 3,000 - \$10,000	93,000	20,000
Telecom	04/22/04	1.80% - 4.80%	2019	\$50,000 - \$85,000	950,000	630,000
Electric	02/01/01	4.70% - 5.60%	2016	\$55,000 - \$110,000	1,200,000	585,000
Sewer Relining	12/01/07	3.00%	2027	\$21,000 - \$35,000	520,000	477,000
Total Bonds Due					\$ 3,413,000	\$ 2,137,000

Annual debt service requirements to maturity of General Obligation Bonds and Notes, revolving loan fund loans, special assessment notes and Revenue Capital Loan Notes are as follows:

Year Ending June 30	General Obligation Bonds and Notes		Special Assessment Capital Loan		Business Park Capital Loan Note		Total Governmental	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$ 15,000	\$ 2,295	\$ 10,000	\$ 1,105	\$ 50,000	\$ 15,448	\$ 75,000	\$ 18,848
2012	15,000	1,545	10,000	560	50,000	13,498	75,000	15,603
2013	15,000	780	-	-	50,000	11,523	65,000	12,303
2014	-	-	-	-	55,000	9,523	55,000	9,523
2015	-	-	-	-	55,000	7,295	55,000	7,295
2016 – 2020	-	-	-	-	120,000	7,590	120,000	7,590
Total	\$ 45,000	\$ 4,620	\$ 20,000	\$ 1,665	\$ 380,000	\$ 64,877	\$ 445,000	\$ 71,162

CITY OF PAULLINA, IOWA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 3 – BONDS AND NOTES PAYABLE (CONTINUED)

Year Ending June 30	Telecommunications Revenue Capital Loan Notes Issued 4-1-04		Electric Revenue Revenue Capital Loan Issued 2-1-01		Sewer Relining Project Revenue Capital Loan Issued 8-30-07		Total Business Type	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$ 60,000	\$ 27,338	\$ 85,000	\$ 31,835	\$ 22,000	\$ 14,310	\$ 167,000	\$ 73,483
2012	60,000	25,117	90,000	27,330	23,000	13,650	173,000	66,097
2013	65,000	22,778	95,000	22,515	23,000	12,960	183,000	58,253
2014	65,000	20,145	100,000	17,385	24,000	12,270	189,000	49,800
2015	70,000	17,415	105,000	11,935	25,000	11,550	200,000	40,900
2016 – 2020	310,000	37,615	110,000	6,160	135,000	46,200	555,000	89,975
2021 – 2025	-	-	-	-	156,000	24,630	156,000	24,630
2026 – 2030	-	-	-	-	69,000	3,120	69,000	3,120
Total	\$ 630,000	\$ 150,408	\$ 585,000	\$ 117,160	\$ 477,000	\$ 138,690	\$ 1,692,000	\$406,258

In September 2006, the City issued \$515,000 of bond anticipation notes to finance the development of the Business Park. The notes mature June 1, 2017 and accrues interest at up to 4.25%. Payments for these bonds will come from the Debt Service Fund and the Business Park Fund.

The City of Paullina in early 2006 began the process of rehabilitating their sewer system. The project will consist of the re-lining of approximately 28,000 feet of existing sewer line. The City began receiving Iowa Finance Authority funds in April of 2006 to fund the initial costs of the study and engineering costs. To satisfy the Iowa Finance Authority debt the City issued \$520,000 of SRF bonds in August of 2007. Additionally, the City has been awarded a block grant of \$350,000 to pay the remaining costs of the project. The project was completed in November 2008. The city council has indicated that an increase in sewer rates will be initiated to repay the bond issue.

NOTE 4 – PENSION AND RETIREMENT BENEFITS

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

The City's payroll for employees covered by the System for the year ended June 30, 2010 was \$331,599. The total City payroll for the fiscal year was \$378,087. All full-time City employees are eligible to participate in IPERS. Benefits vest after 4 years (or 16 quarters) of service or when the employee attains the age of 55, whichever comes first. Employees are eligible to retire at or after age 55 and are entitled to an annual retirement benefit, payable monthly for life, in an amount calculated on an average of their highest 3 year average salary. IPERS also provides death and disability benefits.

Most regular plan members are required to contribute 4.30% of their annual covered salary and the City is required to contribute 6.65% of annual covered payroll. Contribution requirements are established by State statute. The City's contribution to IPERS for the years ended June 30, 2010, 2009, and 2008 were \$27,558, \$17,533 and \$16,250 respectively, equal to the required contributions for each year.

CITY OF PAULLINA, IOWA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 5 – RISK MANAGEMENT

The City of Paullina is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 6 – TELECOMMUNICATIONS PROJECT

On May 2, 1999 the City of Paullina entered into a Joint Public Improvement agreement with other communities in O'Brien County, under Chapter 28E of the Code of Iowa, to acquire property and construct facilities to provide telecommunication services to the cities. Each party is responsible for retiring its portion of the debt incurred. The Community Cable Television Agency of O'Brien County is controlled by a jointly appointed Board of Directors and is operated apart from the City's operations. The financial information for the Community Cable Television Agency is not included in the City's financial statements.

NOTE 7 – INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2010, is as follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ 98,609	\$ -
Debt Service	49,144	29,439
Employee Benefits	39,811	-
North Mickley Street	59,156	-
Road Use Tax	-	29,717
Urban Renewal – TIF	-	18,700
Emergency	-	5,034
Local Option Sales Tax	-	78,064
Water	-	16,000
Electric	-	80,566
Sewer	11,800	1,000
	<u>\$ 258,520</u>	<u>\$ 258,520</u>

Transfers are used to:

1. Move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them.
2. Move revenues restricted to debt service from the fund collecting the revenues to the debt service fund as debt service payments become due.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF PAULLINA, IOWA
BUDGETARY COMPARISON SCHEDULE OF RECEIPTS,
DISBURSEMENTS AND CHANGES IN BALANCES BUDGET AND ACTUAL
(CASH BASIS)- ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS
For the Year Ended June 30, 2010

	Budgeted Amount		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Receipts:				
Taxes	\$ 184,072	\$ 184,072	\$ 183,904	\$ (168)
Special Assessments	2,300	2,300	20,143	17,843
Licenses and Permits	2,555	2,555	2,915	360
Intergovernmental	113,561	203,561	216,369	12,808
Charges for Services	1,519,969	1,519,969	1,694,346	174,377
Contributions	-	-	10,350	10,350
TIF Revenue	20,996	20,996	19,298	(1,698)
Local Option Sales Tax	112,912	112,912	78,061	(34,851)
Rental of City Property	25,000	41,490	46,494	5,004
Interest	35,170	35,170	29,172	(5,998)
Miscellaneous	27,150	67,381	45,284	(22,097)
Total Receipts	2,043,685	2,190,406	2,346,336	155,930
Disbursements				
Public Safety	234,847	234,847	223,141	11,706
Public Works	299,733	451,332	425,123	26,209
Health and Social Services	4,500	9,300	8,570	730
Culture and Recreation	128,579	128,579	84,601	43,978
Community and Economic Development	2,000	2,000	113	1,887
General Government	71,069	80,469	66,382	14,087
Capital Projects	45,282	73,804	71,458	2,346
Debt Service				
Principal Retirement	110,000	110,000	110,000	-
Interest	25,345	25,345	25,345	-
Business Type / Enterprises	1,422,130	1,422,130	1,290,242	131,888
Total Disbursements	2,343,485	2,537,806	2,304,975	232,831
Excess (deficiency) of receipts over disbursements	(299,800)	(347,400)	41,361	388,761
Other financing sources (uses):				
Proceeds from Debt Financing	47,983	47,983	-	(47,983)
Transfers In	230,217	286,092	258,520	(27,572)
Transfers (Out)	(230,217)	(286,092)	(258,520)	27,572
Total other financing sources (uses)	47,983	47,983	-	(47,983)
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(251,817)	(299,417)	41,361	340,778
Balances Beginning of Year	2,509,121	2,509,121	2,509,121	-
Balances End of Year	\$ 2,257,304	\$ 2,209,704	\$ 2,550,482	\$ 340,778

CITY OF PAULLINA, IOWA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION –
BUDGETARY REPORTING
JUNE 30, 2010

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annual adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the adopted budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, a budget amendment increased budget disbursements by \$250,196. The budget amendment is reflected in the final budgeted amounts.

OTHER SUPPLEMENTARY INFORMATION

CITY OF PAULLINA, IOWA
 COMBINING STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
 Governmental Nonmajor Funds
 For the Year Ended June 30, 2010

Schedule 1

	Special Revenue Funds			Capital Project Fund	Total Governmental Nonmajor Funds
	Emergency	Employee Benefits	Local Option Sales Tax	North Mickley Street	
Receipts:					
Taxes	\$ 4,929	\$ 534	\$ -	\$ -	\$ 5,463
Special Assessments	-	-	-	19,049	19,049
Local Option Sales Tax	-	-	78,061	-	78,061
Interest on Investments	13	115	3	-	131
Total Receipts	4,942	649	78,064	19,049	102,704
Disbursements:					
Public Safety	-	37,914	-	-	37,914
Public Works	-	153	-	-	153
Culture and Recreation	-	4,067	-	-	4,067
General Government	-	1,133	-	-	1,133
Capital Outlay	-	-	-	71,283	71,283
Total Disbursements	-	43,267	-	71,283	114,550
Excess (Deficiency) of Receipts over Disbursements	4,942	(42,618)	78,064	(52,234)	(11,846)
Other financing sources (uses):					
Transfers In	-	39,811	-	59,156	98,967
Transfers Out	(5,034)	-	(78,064)	-	(83,098)
Total other financing sources	(5,034)	39,811	(78,064)	59,156	15,869
Net Change in Cash Balances	(92)	(2,807)	-	6,922	4,023
Cash Balances Beginning of Year	92	23,397	-	(6,922)	16,567
Cash Balances End of Year	\$ -	\$ 20,590	\$ -	\$ -	\$ 20,590

CITY OF PAULLINA, IOWA
SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION -
ALL GOVERNMENTAL FUNDS
For the Four Years Ended
June 30, 2010

Schedule 2

	2010	2009	2008	2007
Receipts:				
Property tax	\$ 183,904	\$ 226,651	\$ 264,050	\$ 254,210
Tax increment financing revenue	19,298	20,811	19,510	19,176
Local Option Sales Tax	78,061	127,387	106,021	97,940
Licenses and permits	2,915	2,300	3,086	3,062
Use of money and property	51,543	43,765	60,113	68,337
Intergovernmental	222,704	106,383	107,496	104,893
Charges for service	104,812	106,737	172,818	120,943
Special Assessments	20,143	23,977	24,963	40,338
Miscellaneous	40,299	103,240	26,799	54,423
Sale of Capital Assets	9,000	835	15,250	-
Total	732,679	762,086	800,106	763,322
Disbursements:				
Operating:				
Public safety	223,141	288,822	180,252	194,672
Public works	425,123	256,664	220,047	378,086
Health and Social Services	8,570	4,150	4,000	3,850
Culture and recreation	84,601	84,288	96,023	73,177
Community and economic development	113	1,993	1,272	90
General government	66,382	63,631	68,786	65,456
Debt service	135,345	140,150	144,890	92,168
Capital projects	71,458	7,811	10,665	337,625
Total	\$1,014,733	\$ 847,509	\$ 725,935	\$1,145,124



21 1st Avenue NW
P.O. Box 1010
Le Mars, IA 51031
Phone (712) 546-7801
Fax (712) 546-6543

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor and Members of the City Council
City of Paullina, Iowa

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Paullina, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the City of Paullina, Iowa's basic financial statements and have issued our report thereon dated November 23, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Paullina's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Paullina's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Paullina's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings as II-A-10, II-B-10, and II-C-10 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Paullina's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2010 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Paullina's responses to findings identified in our audit are described in the accompanying Schedule of Findings. We did not audit the City of Paullina's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Paullina and other parties to whom the City of Paullina may report. This report is not intended to be used and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by the personnel of the City of Paullina during the course of our audit. If you have any questions concerning any of the above matters, we would be pleased to discuss them with you at your convenience.

Williams & Langley P.C.
Certified Public Accountants

Le Mars, Iowa
November 23, 2010

CITY OF PAULLINA, IOWA
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2010

Part I – Summary of the Independent Auditor's Results:

- (a) Unqualified opinions were issued on the financial statements.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

Part II – Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCIES:

II-A-10 Financial Accounting – Segregation of Duties

Observation – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The City Clerk is involved in almost all phases of the finance operations, including cash receipts listing, bank deposits, check preparation, preparation of journal entries, as well as financial reporting and statements.

Recommendation – With a limited number of personnel, segregation of duties is difficult. However, the City should review its internal control to obtain the maximum internal control possible under the circumstances.

Response – The City feels that additional personnel would not be cost effective. However, management will monitor transactions on a regular basis.

Conclusion – Response accepted.

II-B-10 Financial Reporting

Observation – During the audit, we identified two transfers made to the Library that were recorded in the general ledger as Materials and Supplies Expense. We also identified three transfers made to the General Fund from the LOST, Water and Electric Funds that were recorded in the general ledger as Reimbursements Income.

Recommendation – With limited personnel, the City should implement procedures to ensure that all cash disbursements are properly identified and recorded in the financial statements.

Response – The City will double check disbursements in the future to ensure that they are properly recorded in the financial statements.

Conclusion – Response accepted.

CITY OF PAULLINA, IOWA
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2010

Part II – Findings Related to the Financial Statements (Continued):

II-C-10 Financial Reporting

Observation – During the audit, we identified interest income in the Business Park Fund that was recorded as a transfer in rather than interest income. We also identified interest income in the Electric Fund that was not properly recorded in the City's financial statements. Adjustments were subsequently made by the City to properly include these amounts in the financial statements.

Recommendation – With limited personnel, the City should implement procedures to ensure that all cash receipts are properly identified and recorded in the financial statements.

Response – The City will double check receipts and transfers in the future to ensure that they are properly recorded in the financial statements.

Conclusion – Response accepted

Part III – Other Findings Related to Statutory Reporting

III-A-10 Certified Budget – Disbursements during the year ended June 30, 2010 did not exceed the amounts budgeted.

III-B-10 Questionable Disbursement – We noted no disbursements that did not meet the requirements of public purpose as defined in the Attorney General's Opinion dated April 25, 1979.

III-C-10 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

III-D-10 Business Transactions – There were no business transactions between the City and City officials or employees noted.

III-E-10 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.

III-F-10 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

III-G-10 Deposits and Investments – We noted no instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policies.

III-H-10 Revenue Notes – The City was in compliance with the requirements of its revenue notes.

III-I-10 Telecommunication Services – No instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.

CITY OF PAULLINA, IOWA
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2010

Part III – Other Findings Related to Statutory Reporting (Continued)

III-J-10 Debt Service Fund Balance – The City's Debt Service Fund has accumulated a fund balance of \$266,312, an amount in excess of the amount needed.

Recommendation – The City should consider using the amount in the Debt Service Fund to pay debt rather than continuing to levy taxes at current rates.

Response – The City will use what has been accumulated in the Debt Service Fund and not levy as much for future debt service payments.

Conclusion – Response accepted.